Canadian Pork Council
Conseil canadien du porc

February 21, 2003

A.J. Yates
Administrator, Agricultural Marketing Service
Country of Origin Labeling Program
U.S. Department of Agriculture
Room 3071-S, Mail Stop 0249
1400 Independence Avenue, SW
Washington, D.C. 20250-0249

Dear Madam/Sir:

Re: Request for Emergency Approval of a New Information Collection (Doc#LS-02-16)

The Canadian Pork Council is a federation of provincial hog farmers' associations, representing the interests of Canada's 12,000 pork producers. We are responding to the Federal Register notice of November 21st which presents AMS estimates of recordkeeping costs of the country-of-origin labelling (COOL) provisions of the 2002 Farm Bill and inviting comments thereof.

We begin by confirming our agreement with comments of the Government of Canada, submitted via a letter dated 21 January from the Canadian Embassy. Specifically, we agree that:

- **Country of origin labelling is inconsistent with the increasingly integrated markets** within North America for livestock and meat. COOL will be an impediment to trade, thus frustrating the business efficiencies realized in both countries from the growing trade in these commodities.

- This country of origin labelling legislation, with its requirements that only product from animals born, raised and processed in the United States can be labelled as product of the U.S., is more restrictive than country of origin identification schemes in other jurisdictions and creates an **enormous recordkeeping burden and additional bureaucracy** for the American food industry to have to contend with.

Such costs include segregation of animals and meat products, verification and audit of tracking system information, and increased bureaucracy throughout the meat marketing chain.

- The recordkeeping and other **costs of compliance with COOL provisions will fall disproportionately on smaller, independent farmers**. Costs of implementing sophisticated tracking systems of the sort required for farm to retail record-keeping, which COOL effectively requires, will be disproportionately large for smaller farmers. Management effort and capital requirements will be less per unit of output for larger enterprises. The effort to investigate alternatives and select a system, and the investment funds expended will have a large fixed component regardless of size of operation and thus the cost *per hog* will be lower for the larger enterprises.

  Larger farms are more likely to have staff with appropriate expertise to implement record-keeping while smaller farms are more likely to have to contract with consultants or other suppliers from outside of their operation.

- Recordkeeping requirements for pigs marketed by **independent, non-integrated, farmers will be subject to much greater recordkeeping challenges** since there are more transactions involved with these animals. This is confirmed in a recent release (at http://www.seaboardpork.com/view_pressrel.asp?pr_id=25 and attached), where a Seaboard Farms official, in announcing the company's new traceback service on its branded *Natural PrairieFresh® Premium Pork*, indicated: "Since we're a vertically integrated company it's relatively easy for us trace our products to a source farm".

  This Seaboard example is also an instance of a value-added product that can be expected to command a premium which covers additional marketing costs such as those of a farm-to-retail tracking system. It is much more difficult for smaller, independent producers to afford the costs and achieving the product volumes that would justify the financial outlays to create a brand, to support it with advertising and to secure space in the meat case in food retail stores.

  This will have a severe negative impact on their ability to meet the challenge of remaining competitive with production from integrated enterprises.

  Recent communications from individual U.S. pork processing companies (examples attached for Hormel Foods, Swift & Company and IBP) bear out the significant obligations which COOL is creating for producers to ensure their packer customers are in compliance with requirements they in turn are being confronted with from their own customers, the food retailers.

Based on our own recent work on identification and traceability, the CPC is in solid agreement with conclusions contained in the analysis performed by Drs. Hayes and Meyer for the U.S. National Pork Producers Council (at http://nppc.org/news/releases/2003/030211COOL.html) where they indicate that costs of a full traceback system for U.S. hogs to meet COOL requirements will amount to several dollars per hog. From the knowledge we have accumulated in the course of our own work, we are not aware of a single country that has implemented farm-to-retail tracking which is comprehensive of their entire hog production such would appear to be necessary with the U.S. COOL provisions, with the huge costs being the major limiting factor.

- Mandatory country of origin labelling will have a **negative impact on U.S. hog slaughter capacity and competition**. If, as we expect, U.S. packers will find it unattractive to purchase Canadian slaughter hogs due to costs of segregation, record-keeping, etc., the capacity utilization and, in turn, the economic viability of certain U.S. plants will be negatively affected thus potentially resulting in closure. This will force hog producers formerly shipping to those plants to transport hogs further distances to packers located elsewhere, thus increasing their costs. It will also weaken competition within the U.S. packing sector, given that having fewer buyers will weaken marketing leverage of the producer sector.

- Compliance costs will have to be absorbed largely, if not totally, by the meat and livestock sector. For pork and red meats to remain price competitive with **poultry** (which **is not subject to mandatory labelling**), the production and distribution chain will be forced to absorb the enormous recordkeeping and other compliance costs of COOL. The severe deterioration in the cost competitiveness of pork relative to poultry meats will further depress the domestic sales potential for U.S. hog producers.

- The imposition of mandatory COOL could seriously **upset the hog production and marketing behaviour within North America**. Canada exported almost 4 million feeder pigs (including early weaned or ‘isowean’ piglets) to the United States in 2002. If COOL discourages U.S. hog feeding enterprises from purchasing Canadian feeder pigs due to costs of segregation, record-keeping and lack of buyer (i.e., packer) interest, this will encourage increased feeder pig production in the United States. There could be a concurrent increase in feeding capacity installed in Canada to finish the feeder pigs formerly shipped to the United States. Thus total North American hog supplies will increase relative to the situation where COOL is not in place. Higher hog supplies, *ceteris paribus*, result in lower prices to hog farmers.

We would reiterate earlier comments we made in opposition to mandatory country of origin labelling in our letter to the AMS from last August; namely that:

- A mandatory country-of-origin labelling system sets a dangerous precedent for other countries to follow. While we do not argue with its position opposing mandatory labelling of genetically modified foods in Europe and elsewhere, we do not understand how the U.S. government can at the same time be implementing laws to require country of origin labelling for meat and other food products.

- Mandatory systems impose marketing costs with no corresponding increase in consumer benefits in terms of quality and safety.

- We once again recommend that the USDA look at simply adopting existing NAFTA rules for tariff purposes; that country of slaughter and processing confers origin. Slaughtering represents a 'substantial transformation' in that the products obtained by it (meat, offal, hides, etc.) are irreversibly different from the live animals from which they are obtained.

With respect to the AMS estimate of the reporting and recordkeeping costs to the U.S. industry of $1.97 billion, it is, in our opinion, quite credible. As already reported in the January 22 submission of the Government of Alberta, Sparks Companies Inc. performed an assessment of the accuracy of this estimate. The Canadian Pork Council is also a member of the consortium for which Sparks arrived at cost estimates very similar to the USDA's.

We concur with the Alberta government that recordkeeping is only one element of the costs of COOL. They point out that additional costs will include enforcement and segregation of animals and products, and capital investments in marketing chain infrastructure.

We also agree with observations of the National Pork Producers Council in connection with an impact study recently completed for them, that mandatory COOL will actually result in some cost advantages for the Canadian hog and pork industries vis-à-vis their U.S. counterparts. We believe the NPPC is quite correct in concluding that "U.S. pork exports could be 50 percent lower than they would be without the labeling program". We would argue that the U.S. industry will also be more challenged to retain their domestic market share, simply on the basis of cost competitiveness, given

- The U.S. hog industry will be burdened with identification and tracking system, as well as recordkeeping, costs, that are much larger than those that Canadian (or other countries') producers are required to bear.

- The U.S.'s ability to sustain exports will be negatively impacted if COOL results in U.S. produced pork being substituted for imported meat by domestic retailers. This could weaken prices paid to U.S. producers as past studies (e.g., for the U.S. Meat Export Federation) point to exports as having a very positive impact on U.S. livestock prices.

- Canadian companies who can provide 'case-ready' pork may become preferred suppliers to U.S. retailers over U.S. packers who source all or most of their animals from independent livestock producers. This is because there is only one party, the Canadian case-ready supplier, which is responsible for tracking data on the meat coming into the U.S. food retail establishment. For many of the U.S. suppliers, however, there will be concerns for the integrity of tracking data from the plant back through to the many farms where that plant's hogs were finished and beyond, to the many other farms on which those finished pigs were born (i.e., feeder pig suppliers). (We would note, however, that the Canadian case-ready pork suppliers would have no advantage over U.S. integrated pork companies which control their throughput from birth to slaughter — *another* case where the negative impacts of COOL fall disproportionately harder on the smaller, independent producers.)

Having pointed out these potential relative cost advantages for the Canadian industry, we must emphasize that these will be *much more* than offset for us by the additional costs incurred for Canada to continue to trade with the United States and by the depressing effects on North American hog price effects resulting from mandatory country of origin labelling.

We thank you for this opportunity to provide our comments on the recordkeeping cost estimates and country of origin labelling in general.

And finally, we join with the many other parties — U.S. and Canadian — in strongly urging the **repeal of mandatory country of origin labelling**.

Sincerely,

Edouard Asnong
President

EA/881

Press Release

Natural PrairieFresh® Premium Pork launches online traceability service

Contact: David Eaheart, APR
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SHAWNEE MISSION, Kan. (Feb. 4, 2003) — Seaboard Farms announced today a new online service that allows retail customers to trace individual boxes of Natural PrairieFresh® Premium Pork to a source farm.

"Since we're a vertically integrated company it's relatively easy for us trace our products to a source farm," says Terry Holton, senior vice president of sales and marketing. "Now we've taken our internal ability to trace Natural PrairieFresh® Premium Pork products and made it easy for our retail customers to trace individual boxes to our source farms."

To use the new system, retailers go to Order Status found under the Retail/Food Service tab located at www.prairiefresh.com where they will enter the PrairieFresh® Customer Care Center. Once they have provided their customer number and password they will see a Product Trace link at the top of the page in addition to the Order Status link.

Once going to Product Trace, they will be prompted to enter a unique serial number that's found on each box of Natural PrairieFresh® Premium Pork. After they enter a valid serial number, they will find information to confirm when the product was produced. From the Farm History link found on the Product Trace page, the retailer will find information about the source farm, including the farm location, farm manager and genetics. Seaboard Farms is also offering the online Product Trace service for its export products.

"As consumers, especially those that purchase natural meat products, demand more information about the products they purchase, we wanted to make it simple for our retail customers to have information readily available for consumers," says Holton. "Our online Product Trace service will do exactly that for them. Just a few simple clicks and they can find important information about the Natural PrairieFresh® Premium Pork products they are putting in their meat cases."

PrairieFresh® Premium Pork is a product of Seaboard Farms, Inc. Headquartered in Shawnee Mission, Kan., the company is a leading producer and processor of fresh pork in the United States, and a top exporter to Japan and Mexico. In addition to its food safety commitment, Seaboard Farms has been recognized for its aggressive research and proactive environmental standards. All Seaboard Farms pork and PrairieFresh® Premium Pork are a "Product of USA." For more information about PrairieFresh® Premium Pork, log onto www.prairiefresh.com.

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Hormel Publicizes Policies for COOL Compliance

By Pork news source (Tuesday, February 04, 2003)

Hormel Foods became among the first pork processors to notify producers supplying them with hogs of the new requirements that will be implemented when country of origin labeling becomes mandatory.

The law will become mandatory on September 30, 2004. Hormel said they would rather share their policies sooner rather than later to allow more time to comply.

Retailers are ultimately responsible for labeling, but the required audit trail must go back to the farm. This means documentation that is approved by a third-party auditor will be required from each pork producer proving where the animals were born and raised.

After reviewing the Country of Origin Labeling law Hormel Foods has determined that several hog procurement policies need to be implemented in order to comply with the requirements. They are as follows:

1. Hormel Foods, per the Country of Origin Labeling law, will require from the producer third-party verified documentation proving where the animals purchased were born and raised.

2. Producers will have to sign a legal affidavit with each load of hogs stating that there is a third-party verified audit trail in place and it identifies the origin of the hogs on each load.

3. Hormel Foods will perform random producer audits verifying that an accurate audit trail is in place that will comply with Country of Origin and that it has been approved by a USDA certified third-party.

4. If Hormel is issued a fine or penalty resulting from producer noncompliance that fine will be assessed to the party responsible.

There is still much to learn about COOL before the September 2004 mandatory deadline, but Hormel decided to share these policies sooner rather than later to allow more time to comply. More policies may be necessary down the road, says the company.

Hormel Foods

Swift & Company
1770 Promontory Circle
Greeley, CO 80634-9038

TEL: 970-506-7772
FAX: 970-506-8339

Swift & Company

February 3, 2003

Dear Producer:

While the official implementation date for the USDA's mandatory Country of Origin Labeling (COL) isn't until Sept. 30, 2004, the reality is that the beef, lamb and pork industries are gearing up for full COL reporting now, and it is important that every link in the production chain be on board.

COL record keeping requirements are effective starting immediately for any cattle born this month (February 2003) or later. Any hogs or lambs born December 2003 or later also must be included in the documentation.

The USDA guidelines for COL require that a retailer maintain for a minimum of two years a "verifiable audit trail" regarding COL. This, in turn, means that each of us – from retailer to producer to packer to processor to importer – must keep "auditable records documenting the origin of covered commodities."

USDA has indicated that self-certification of an animal's country-of-origin does not comply with the statutory requirements.

The onus is on the retailer, since they are subject to penalties of up to $10,000 for each "willful" violation of COL. However, anyone who supplies covered commodities (including fresh muscle cuts of beef, lamb and pork; ground beef, ground lamb and ground pork) to retailers also can be subject to penalties of $10,000 per violation. It's important to note that the "willful" provision is missing for suppliers, which could make it easier to levy penalties on suppliers.

Not surprisingly, national grocery retailers have begun communicating that we, as suppliers, need to begin implementing the record-keeping aspects of COL "if we are to continue to sell your products in our stores."

It's important to note here that the issue is not whether the product is of domestic or foreign origin. Records must be kept to document the origin of both foreign and domestic livestock. The issue is whether the product is labeled and documented properly. To ensure that our record keeping is based in fact, we must be able to support it with a segregation plan that ensures we can identify both our livestock and our products by national origin – as well as subsequent out-of-country stops.

The process will be more complex because the Agricultural Marketing Service (AMS) contends that it would be misleading to label a ground beef product, for example, as a "product of the United States, Canada and Australia" if only a small percentage of the beef qualified as of U.S. origin. Thus, ground products must be labeled with the "applicable country of origin information…for each raw material's source in descending order of prominence by weight."

A passport for each animal

To give you an illustration, following are several labeling scenarios that could result from COL:

- Hogs born in one country, such as Canada, and raised and slaughtered in the United States would be labeled "*From Hogs Born in Canada, Raised and Slaughtered in the United States.*"
- Similarly, some beef products may be labeled "*From Cattle Born in Mexico, Raised in Canada and Slaughtered in the United States,*" or "*From Cattle Born in Mexico, Raised and Slaughtered in the United States.*"
- However, we know that one ground beef label could read: "*Beef from Cattle with the Following Countries of Origin: Born in Mexico, Raised and Slaughtered in the United States; New Zealand; Born, Raised and Slaughtered in the United States; and Born and Raised in Canada and Slaughtered in the United States.*"

To ensure that we can keep the auditable trail of documents intact, we will be looking to you as our suppliers to provide evidence of your record-keeping program. Our requirements are as follows:

1. Swift & Company, per the Country of Origin Labeling law, will require (from the producer) third-party verified documentation (audit trail) proving where the animals purchased were born and raised.
2. Producers will have to sign a legal affidavit with each load of livestock stating that there is a third-party verified audit trail in place and identifies the origin of the livestock on each load.
3. Swift & Company will perform random producer audits verifying that an accurate audit trail is in place that will comply with Country of Origin, and that it has been approved by a USDA certified third-party.
4. If Swift & Company is issued a fine or penalty resulting from producer noncompliance, that fine will be assessed to the party responsible.

We look forward to working with you to successfully implement the requirements of COL. If you have any questions on COL, contact your state's livestock association or view the USDA web site www.ams.usda.gov/cool/ for more information.

Sincerely,

Warren Mirtsching
Vice President
Quality Assurance & Food Safety

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NOTE: The following information has been retyped for clarity of typeface. The information is word-for-word from a fact sheet named IBP Feedback (no date available) which was forwarded to us on February 4, 2003.

Feedback

USDA estimates country-of-origin labeling (COOL) will cost almost $2 billion in its first year, and that is just for recordkeeping. It does not include other expenses due to livestock and product segregation, tracking systems and retail labeling. These costs are sufficient reason this new labeling law must be seriously reconsidered. Here are more specifics:

Producer Impact

- Half of the first-year recordkeeping expense of COOL, or $1 billion, will be on farmers, ranchers and others who will be forced to develop and maintain a recordkeeping system to comply with the regulation. LIVESTOCK PRODUCERS NEED TO START PREPARING FOR COOL SOON. They WILL need verifiable documentation on U.S. animals born in 2003 that go to market when country of origin labeling becomes mandatory in September 2004.
- This means each animal sold to a packing plant must have its place of birth documented, as well as the place or places it spent its life. These documents will have to be maintained by producers, provided to packers, and will likely be subject to independent audits in order to satisfy retail customers. If the documentation is not adequate, meat from that livestock CANNOT be sold in U.S. retail food stores.

Packer/Retailer Impact

- The rest of the food production chain will also have to keep records. USDA estimates this will cost food handlers, including packers, $340 million. It will cost retailers $628 million.
- Packers will also have to segregate livestock and meat products that have different "born in/raised in" documentation. This segregation will take place in pens, at the point of slaughter, in coolers, during fabrication and at the point of packaging. Packaged fresh meats must have verifiable documentation tracing the product all the way back to the birth of the animal. These segregation traceability requirements will create new logistical, recordkeeping and staffing costs.

No Benefits

Since there is no real evidence consumers are willing to pay higher prices for meat from livestock born and raised in the U.S., the bill for this expensive, new law will ultimately be handed down to livestock producers. In other words, this new law will only harm the people it was purportedly designed to help.

We strongly encourage you to tell your Congressional representatives to either repeal this damaging law or amend it and make it permanently voluntary.